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Building subsidiary local responsiveness: (When) does the directionality of intrafirm knowledge transfers matter?

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ABSTRACT

The present study focuses on effects of subsidiary internal knowledge-based activities—knowledge transfer and reverse knowledge transfer—and absorptive capacity on local responsiveness. We also examine whether absorptive capacity, shared values, and psychological safety, representing constituents of the motivation-opportunity-ability model of behavior, moderate relationships of subsidiary internal knowledge-based activities with responsiveness. Based on a sample of 173 Chinese subsidiaries, the results suggest knowledge transfer and absorptive capacity facilitate local responsiveness. Shared values moderates positively and absorptive capacity negatively, the relationship between knowledge transfer and responsiveness. Psychological safety strengthens the link between reverse knowledge transfer and local responsiveness.

1. Introduction

Due to constant and unpredictable changes in customers' needs within and across country markets, subsidiaries' ability to respond continuously to emerging opportunities and threats has become a prerequisite for the success of multinational companies (MNCs) (Lee, Chen, & Lu, 2009; Luo, 2001; Morris, Hammond, & Snell, 2014). Indeed, a challenge to MNCs' efforts to successfully manage international operations is that their strategic leverage is moving from global business efficiency to market responsiveness. Local responsiveness refers to the extent to which the firm is able to address customer- and competitor-related changes in a timely way (Homburg, Grozdanovic, & Klarmann, 2007; Katsikeas, Leonidou, & Morgan, 2000). In the context of MNC networks, local responsiveness concerns the subsidiary's rapid response to specific needs of the host country's marketplace (Luo, 2001).

In the international business literature, intrafirm learning has received enduring attention (Bilgili, Kedia, & Bilgili, 2016; Hung, Yang, Lien, McLean, & Kuo, 2010; Saka-Helmhout, 2010). In particular, intrafirm knowledge flows have been considered primary mechanisms for learning in cross-border operations (e.g. Lane, Salk, & Lyles, 2001; Rui, Zhang, & Shipman, 2016) that result in incremental innovations (Lages, Jap, & Griffith, 2008). Headquarters' knowledge transfer enhances internal capabilities such as knowledge development (e.g. Jiang, Branzei, & Xia, 2016; Li & Lee, 2015; Najafi-Tavani et al., 2015) and potentially impacts subsidiary performance (e.g. Contractor, Yang, & Gaur, 2016).

Nonetheless, findings regarding the impact of headquarters' knowledge transfer on subsidiary performance are far from conclusive, with some indicating positive effects (e.g. Fang, Wade, Delios, & Beamish, 2013; Keupp, Palmié, & Gassmann, 2011) and others negative ones (e.g. Dhanaraj, Lyles, Steensma, & Tihanyi, 2004). The explanation for these mixed findings may be that resources provided through knowledge transfer benefit subsidiary performance only when they fit with subsidiary capabilities and conditions (Li & Lee, 2015). The literature, however, lacks theory development on factors that condition the outcomes of knowledge transfer and is unable to provide guidelines on when MNCs should invest in such activities. Given the key role played by knowledge transfer within MNC settings, coupled with substantial time and resources needed for successful knowledge flows, it is imperative to identify boundary conditions that shape their performance relevance.

Although responsiveness is a core dimension of business performance, alongside efficiency and effectiveness (Katsikeas et al., 2000), prior studies have focused on intrafirm learning effects on subsidiary effectiveness and/or efficiency (Roth, Jayachandran, Dakhli, & Colton, 2009). There is a dearth of empirical research on whether headquarters' knowledge transfer affects subsidiary local responsiveness. Available studies on MNC subsidiary local responsiveness have often followed the

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environment–strategy–performance view that responsiveness is "mainly influenced by situational contingencies at the subunit level" (Luo, 2001, p. 452). The market environment directly shapes a firm's strategic abilities and outcomes (Cui, Griffith, Cavusgil, & Dabic, 2006). Yet, according to the organizational learning literature (e.g. Argote & Miron-Spektor, 2011; Bilgili et al., 2016), learning from the context of the firm itself would generate competencies that condition its ability to flex to market changes. As part of the MNC, a subsidiary can benefit from the local market, but also utilize relevant knowledge transfers from the firm in which it is embedded (Jiang et al., 2016; Rui et al., 2016).

Within the MNC setting, learning does not only occur within individual subsidiaries. Reverse knowledge transfer—from the subsidiary to headquarters—enables the headquarters to learn from subsidiary competencies (Najafi-Tavani, Giroud, & Sinkovics, 2012). As headquarters can improve its innovation capabilities and performance from such knowledge flows (Driffield, Love, & Yang, 2016; Rabbiosi & Santangelo, 2013), scholars have focused on benefits of reverse knowledge transfer for headquarters or the MNC collectively. Comparatively few studies have assessed the effects of reverse knowledge flows on subsidiary outcomes (Mudambi & Navarra, 2004; Najafi-Tavani, Giroud, & Andersson, 2014). The international business literature is silent as to whether the direction of intrafirm knowledge flows assists the subsidiary in responding quickly to market changes.

The aim of this study is to examine how and when intrafirm knowledge flows in both directions within the headquarters–subsidiary dyad, as a principle mechanism of organizational learning, effect subsidiary local responsiveness. Our focus is on vertical (between the headquarters and subsidiaries), not horizontal (between sister subsidiaries), knowledge flows, within the context of Chinese subsidiaries of non-Chinese MNCs.

The study makes three contributions to existing knowledge. First, the thrust of previous studies have asserted that a subsidiary's local responsiveness is a function of the uncertainty and complexity of the external environment (Luo, 2001). We adopt and test an alternative, organizational learning view that local responsiveness is propelled by the subsidiary's utilization of knowledge opportunities provided through knowledge transfers within the MNC structure in which it is embedded (Lee et al., 2009). Indeed, we focus on intrafirm knowledge flows together with absorptive capacity; the latter enables the subsidiary to use available (internal and external) knowledge resources adaptively. Second, addressing the dearth of subsidiary performance studies on the directionality of knowledge transfer flows (Chen, Chen, & Ku, 2012), we study the effects of knowledge transfer and reverse knowledge transfer on local responsiveness. The results suggest knowledge transfer and absorptive capacity, but not reverse knowledge transfer, are positively linked to responsiveness.

Third, the study unveils that while opportunities provided via knowledge flows can facilitate subsidiary local responsiveness, this association is contingent on other factors (Li & Lee, 2015). Providing a novel perspective, our research employs the motivation–opportunity–-ability (MOA) model of behavior (Blumberg & Pringle, 1982) as a theoretical structure to identify subsidiary-, intrafirm exchange-, and MNC firm-level factors that account for heterogeneity in the local responsiveness outcomes of intrafirm knowledge flows. Cross-border knowledge transfers do not occur without cost and effort, and attempts to manage them can be fruitless without the participation and motivation of the receiver. We posit novel moderating roles of absorptive capacity, shared values, and psychological safety that represent ability, opportunity, and/or motivation aspects within the MOA framework. As such, the contribution of our research is not limited to providing new insights on the responsiveness outcomes of knowledge transfers; rather we shed light on boundary conditions that strengthen or weaken these links. The results suggest shared values positively moderates the knowledge transfer to local responsiveness path, while absorptive capacity negatively conditions this path. Reverse knowledge transfer is positively linked to local responsiveness when psychological safety characterizes the climate in the MNC.

2. Theoretical background and hypotheses

Despite its inconsistencies, the international business literature (e.g. Añón Higón & Manjón Antolín, 2012; Dhanaraj et al., 2004; Keupp et al., 2011; Tran, Mahnke, & Ambos, 2010) has become sophisticated in terms of examining outcomes of intrafirm knowledge flows (e.g. subsidiary innovativeness and performance). Nevertheless, few studies have focused on subsidiary outcomes of reverse knowledge transfer. The majority of these (e.g. Ambos, Andersson, & Birkinshaw, 2010; Mudambi & Navarra, 2004; Najafi-Tavani et al., 2014) have emphasized how reverse knowledge impacts subsidiary position within the MNC. For instance, Najafi-Tavani et al. (2014) demonstrates that reverse knowledge transfer enhances subsidiary bargaining power within MNCs, whereas Ambos et al. (2010) indicates that such activities determine the extent of headquarters' attention. While these studies shed light on the association between reverse knowledge transfer and subsidiary strategic position within the MNC, they do not provide guidelines regarding the performance consequences of such activities. The current study contributes to the literature on traditional and reverse knowledge transfer by investigating how subsidiary engagement in both knowledge flows impacts its local responsiveness.

Notwithstanding its historic origins in management and marketing (Maclnnis & Jaworski, 1989), the MOA framework has been employed recently by a growing stream of studies examining antecedents and outcomes of knowledge transfers in different contexts (e.g. Kim, Hur, & Schoenherr, 2015; Reinholt, Pedersen, & Foss, 2011). For instance, Chang et al. (2012) argued that expatriates' opportunity seeking and ability and motivation to transfer knowledge, influence a subsidiary's profit-related performance via the knowledge received by the subsidiary; and that this indirect mechanism is stronger in the presence of high levels of subsidiary absorptive capacity. Further, Kim, Hur et al. (2015) revealed that the impact of buyer-driven knowledge transfer (as opportunity) on the supplier's operational performance becomes stronger when the supplier's absorptive capacity (as ability) is high and weaker when their innovativeness (as motivation) is high.

We propose that the MOA framework is a robust theoretical lens through which to examine intrafirm knowledge flows to local responsiveness associations, and allied boundary conditions. These knowledge flows are complex, multilevel, and multidisciplinary in nature (Easterby-Smith, Lyles, & Tsang, 2008; Oddou, Osland, & Blakeney, 2009). Scholars have argued that various factors related to the sender and receiver, or the exchange between them, can shape the outcomes of knowledge transfers (Szulanski, 1996). Hence, the challenge of studying intrafirm knowledge flows is to focus on "a parsimonious number of exclusive variables while simultaneously being comprehensive enough to mirror reality accurately without excluding pertinent factors" (Oddou et al., 2009, p.185). The MOA framework helps us to overcome this barrier as it promotes the explicit consideration of boundary conditions that facilitate or hinder the outcomes of intrafirm knowledge flows (cf: Schmitz, 2013).

Further, the MOA framework lends itself to studying intrafirm knowledge flows as multilevel phenomena. It involves a "meta-theoretic principle" that transcends study domains and, thus, can account for observed phenomena across a variety of situations (Kim, Pathak, & Werner, 2015, p. 785). Several studies have used MOA theory to capture the simultaneous effects of organizational-, group-, and individual-level factors on a range of individuals' or firms' activities and outcomes (e.g. Colakoglu, Yamao, & Lepak, 2014; Crespo, Griffith, & Lages, 2014). For instance, Kettinger et al. (2015) used the MOA framework to identify antecedents, at the organizational and individual levels, of knowledge sharing within firms.

In focusing on vertical (not horizontal) knowledge transfers we imply that a focal subsidiary can exploit and benefit from acquired